



DUKE ENERGY CAROLINAS, LLC  
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August 29, 2008

**VIA ELECTRONIC FILING**

The Honorable Charles L.A. Terreni  
Administrator and Chief Clerk  
Public Service Commission of South Carolina  
Synergy Business Park, Saluda Building  
101 Executive Center Drive  
Columbia, South Carolina 29210

**Re: Duke Energy Carolinas, LLC Annual Review of Base Rates For Fuel Costs  
Docket Number 2008-3-E**

Dear Mr. Terreni:

In response to Chairman Fleming's request at the Company's annual fuel hearing held on August 26, 2008, Duke Energy Carolinas, LLC, submits herewith for filing McManeus Late-Filed Exhibits 1 and 2.

McManeus Late-Filed Exhibit 1 represents the highest balance of the Catawba Purchased Capacity Levelization ("PCL") account prior to implementation of the rate decrement rider in June 1996. McManeus Late-Filed Exhibit 2 contains the Commission Orders previously addressing the Catawba PCL.

If you have any questions, please have someone on your staff contact me.

Sincerely,



Catherine E. Heigel

CEH/slt

Enclosures

cc/enc: Jeffrey M Nelson, Esquire (via e-mail and US Mail)  
Lessie Hammonds, Esquire (via e-mail and US Mail)  
Scott A. Elliott, Esquire (via e-mail and US Mail)  
Bonnie D. Shealy, Esquire (via e-mail and US Mail)

cc/enc: Jeffrey M Nelson, Esquire (via e-mail and US Mail)  
Lessie Hammonds, Esquire (via e-mail and US Mail)  
Scott A. Elliott, Esquire (via e-mail and US Mail)  
Bonnie D. Shealy, Esquire (via e-mail and US Mail)

STATE OF SOUTH CAROLINA

(Caption of Case)

In Re:

Annual Review of Base Rates  
For Fuel Costs for  
Duke Energy Carolinas, LLC

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2008 - 3 - E

(Please type or print)

Submitted by: Catherine E. Heigel

SC Bar Number: 9268

Address: Duke Energy Corporation

Telephone: 704.382.8123

P O Box 1006 / EC03T

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Charlotte, NC 28201-1006

Other: \_\_\_\_\_

Email: ceheigel@duke-energy.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

### DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☒ Other: Mc Maneus Late-Filed Exhibits 1 & 2

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input checked="" type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certificatio
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input checked="" type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

**BEFORE  
THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA  
DOCKET NO. 2008-3-E**

In the Matter of:

Annual Review of Base Rates  
for Fuel Costs for  
Duke Energy Carolinas, LLC

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**CERTIFICATE OF SERVICE**

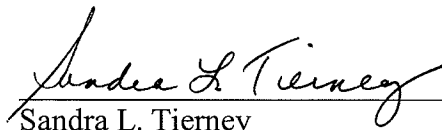
This is to certify that I, Sandra L. Tierney, a Senior Paralegal with Duke Energy Carolinas, LLC, have this day caused to be served upon the persons named below **McManeus Late-Filed Exhibits 1 and 2** in the foregoing matter by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follow:

C. Lessie Hammonds, Esquire  
Office of the Regulatory Staff  
Post Office Box 11263  
Columbia, SC 29211

Jeffrey M. Nelson, Esquire  
Office of Regulatory Staff  
Post Office Box 11263  
Columbia, SC 29211

Scott A. Elliott, Esquire  
Elliott & Elliott, P.A.  
721 Olive Street  
Columbia, SC 29205

Dated at Charlotte, North Carolina this 29<sup>th</sup> day of August, 2008

  
\_\_\_\_\_  
Sandra L. Tierney

In the Matter of:

Annual Review of Base Rates  
for Fuel Costs for  
Duke Energy Carolinas, LLC

# Annual Review of Base Rates for Fuel Costs for Duke Energy Carolinas, LLC

**OF THE TESTIMONY OF**

**JANE L. McMANEUS**

## **McMANEUS LATE-FILED EXHIBIT 1**

Catawba Purchased Capacity Levelization Balance as of May 1996

**\$212,023.898\***

\* In June 1996, the balance began to decline as part of the rate decrement rider of 0.432¢/kWh that was approved in Order 96-337, dated May 10, 1996.

In the Matter of:

Annual Review of Base Rates  
for Fuel Costs for  
Duke Energy Carolinas, LLC

# Annual Review of Base Rates for Fuel Costs for Duke Energy Carolinas, LLC

2

*Order No. 85-841, Docket No. 85-78-E (October 8, 1985) at 34-42 (addressing Catawba Unit 1)*



In the Commission's last order for this Company, the Commission noted that even though economic conditions have been improving in South Carolina, they have not improved significantly enough to reverse its previous position on this matter. See, Order No. 84-108 at p. 35.

The Consumer Advocate contends that the facts have not changed from the previous proceeding and that consumers should not be expected to fund these increases, considering their current economic plight. Therefore, the Commission is of the opinion that the Company's operating expenses should be reduced by the jurisdictional increases in officers' salaries included in test year expenses of \$7,000. Tr., Vol. 7, Miller, at 149.

Q. ADJUSTMENT TO GENERAL TAXES

Staff proposed an adjustment of (\$323,000) to South Carolina Retail General Taxes to correct a misapplication of Industrial KWH's above the base period which is used to allocate the South Carolina Power Excise Tax. The total system amount is correctly reflected in the Company's Cost Study. The Company did not propose a correcting adjustment and the Consumer Advocate did not take a position on the issue.

The Commission finds that Staff's adjustment should be adopted to reflect the correct amount included in General Taxes.

R. OPERATING COSTS OF CATAWBA

The principal component of the Company's requested rate increase is recovery of costs associated with the completion and

commercial operation of Catawba Unit 1. The Company, the Commission Staff, and the Consumer Advocate differ on the treatment they urge this Commission to adopt regarding the recovery of Catawba's costs. It should be emphasized at the outset, however, that neither the Staff nor the Consumer Advocate takes the position that the Company should not recover in its rates all its costs associated with Catawba Unit 1; instead, the dispute among the parties centers on how the recovery should be affected. Briefly, the Company has proposed that its ownership interest of 12.5% of Catawba Unit 1 be included in rate base and reflected in rates, and that the cost of purchased power under the buy-back provisions be reflected in purchased power expense and be recovered as the amounts are paid, i.e. the customers are being asked to "bite the bullet." The Commission's Staff proposes that the costs be levelized over the life of the buy-back - ten years for the cooperatives, fifteen years for the municipalities. The Consumer Advocate advocates a five-year phase-in of the first year's costs.

Duke proposes that the ascertainable costs associated with Catawba Unit 1 be collected on a yearly basis from the South Carolina retail customers. As noted previously, such costs are divided into a capital cost component - reflecting Duke's 12 1/2% ownership interest in Unit 1 - and a purchase power component. Consequently, Duke proposes an addition of \$67,803,000 to its South Carolina retail plant in service to recover for its portion

of the Catawba Unit 1 investment. The revised revenue requirement for the costs associated with Duke's interest in Catawba Unit 1 is \$16,259,000. (Stimart, Tr. Vol. 4, p. 85; Hearing Exhibit 6, Stimart, Exhibit 2) Duke also proposes recovering the \$74,924,000 cost it actually incurs in purchasing power from Catawba Unit 1. (Stimart, Tr. Vol. 4, p. 85) In short, Duke is proposing to this Commission that it be allowed to collect in rates the amount by which its costs attributable to Catawba Unit 1 have actually increased. (Lee, Tr. Vol. 1, p. 22)

Company witness Lee testified that the Company's approach would cause rates to be higher in the short run, but less to the customer in the long run than rates under a levelized or phase-in approach. (Lee, Tr. Vol. 2, p. 22) Also considered by the Company was rate stability under its approach compared to the possible uncertainty that a future Commission would not consider itself bound by this Commission's decision ten to fifteen years in the future, as well as the legal and accounting questions a levelized or phase-in approach would raise. (Id., at 22-24)

Staff's adjustment differs with the Company's with respect to Purchased Power. Specifically, Duke has reflected a Purchased Power increase of \$350,365,000 for system and \$92,668,000 for retail operations, based on its original revenue request. On a system basis, the payments for the test period consist of purchased capacity and purchased energy, excluding fuel, of \$134,098,000 to the North Carolina Municipal Power Agency

(NCMPA), \$45,694,000 to the Piedmont Municipal Power Agency (PMPA), \$127,930,000 to the North Carolina Electric Membership Cooperation (NCEMC) and \$42,643,000 to Saluda River Electric Cooperative, Inc. (Saluda River). These payments are based on computations as negotiated between the parties and are slated to decrease over the lives of the contracts as related to the ten year buy-back provision of the cooperatives' contracts and the fifteen year buy-back provision of the municipals' contracts.

In that the payments decrease over the lives of the contracts, Staff felt that a levelization approach would be appropriate to smooth out the effect on the ratepayer. Accordingly, Staff requested in Data Request #2 (Hearing Exhibit No. 11), that the Company provide a computation reflecting a levelization approach to the payment stream for purchased power from the above mentioned groups over the contract periods.

The response from the Company to Staff's Data Request #2 contained a levelization approach of \$66,747,000 per year on a jurisdictional basis. This consisted of capital cost of \$45,937,000 and \$20,810,000 for O&M Expenses. The computation employed a carrying cost rate of 10.35% (net of tax). This rate was based on Duke's requested return in this case, net of tax. Staff modified the calculation to reflect the capital structure and cost of capital at April 30, 1985, for debt and preferred and included a common equity component of 14.75% to produce a carrying cost rate of 9.73% (net of tax). This resulted in an

adjusted amount of \$45,498,000 for capital cost during the test year. Adding this amount to the test period O&M portion of \$20,810,000 resulted in Staff's jurisdictional adjustment of \$66,308,000. With regard to the entire contract period, capacity charges for municipals for jurisdictional operations would total \$369,756,000. This consists of actual jurisdictional payments of \$298,662,000 and carrying costs of \$71,094,000. For the cooperatives, jurisdictional capacity charges would amount to \$208,341,000. This consists of actual jurisdictional payments of \$176,827,000 and carrying costs of \$31,514,000.

The Consumer Advocate's five-year phase-in is similar to Staff's proposal in that it is intended to alleviate rate shock and will cost the ratepayer somewhat more in the long run, but differs in actual operation. The phase-in testified to by witness Miller would involve the Commission this year including one-fifth of the revenue requirements associated with Catawba Unit No. 1 and next year the Commission would then consider the other four-fifths of the first year's purchased power costs as well as 100% of that year's purchased power costs. Mr. Miller testified that it would not be practical to quantify the revenue requirements for years two through five. Instead, witness Miller proposed that the phase-in be monitored over the five year period. Under Miller's recommendation, the monitoring would be done on a case by case basis and in the event the Company did not file a rate case at the appropriate time, then some type of

proceeding would have to be instituted. The parties involved in the proceeding concerning the phase-in would be the same parties participating in this proceeding, i.e., the Company, Consumer Advocate, SCEUC, and the Commission Staff.

The Company is asking the ratepayers to "bite the bullet" and allow the Company to recover the cost of purchased power under the buy-back provisions as it is incurred. The Commission has considered the Company's proposal and has weighed the advantages of its proposal along with the disadvantages and has also considered the merits of the Staff's and Consumer Advocate's methodologies. It is the Commission's opinion that the particularly large increase ratepayers would be faced with under the Company's proposal warrants a different approach to be taken by the Commission. The Commission was impressed by the concerns of the citizens testifying before the Commission in Columbia, Greenville, and Anderson. Based on the evidence adduced at the hearing, the Commission is of the opinion that the need to moderate the Company's present revenue requirements outweighs the higher long run costs of a levelized or phase-in approach or any other negative possibilities which may or may not occur. Recognizing the need to alleviate rate shock as well as to provide some sort of rate stability, the Commission denies the Company's proposal and looks to the Consumer Advocate's and Staff's recommendations for appropriate treatment of recovery of the costs of Catawba Unit No. 1.

The Commission has considered both of the approaches put forth by the Consumer Advocate and the Staff. Both methods leave some uncertainties to be dealt with by future Commissions, but it appears to the Commission that the five year phase-in proposed by the Consumer Advocate leave more uncertainties to the future than does the Commission Staff's levelization approach. The fact that next year and in the three years to follow the Commission would be considering the remaining portions of the Company's revenue requirements as well as that year's purchased power costs with carrying costs not being known until they are built into the rates because of fluctuating costs of capital and operating expenses, leaves much to chance. Even though Mr. Miller testified that this approach has been used in other jurisdictions, he could not, to the Commission's satisfaction propose a standard practice to implement his proposal. Miller, Tr. Vol. 7, 167-168. The constant monitoring and the fact the participating parties were recommended to be limited to the parties herein or that other parties could be included cause the Commission much concern. For any kind of orderly rate administration, this proposal is fraught with too many uncertainties. Therefore the Commission rejects the Consumer Advocate's five year phase-in proposal.

The Commission, after considering all the proposals, weighing the pros and cons, and balancing the proposals among the multiple and competing interests of the parties, finds that a

levelized approach is the most appropriate in this instance in considering the costs of Catawba Unit No. 1. A levelized approach would reduce the relative frequency of rate adjustments necessary to reflect the annual reductions in the Company's buy-back requirements, as well as act as a hedge against rate shock. In the Commission's opinion, this approach best satisfies the Company's interest in rate stability and the Consumer Advocate's and Staff's interest in moderating the Company's present revenue requirements.

Under the levelized approach, the purchased capacity charges are leveled out, otherwise during the early years of the contracts, the charges would be much higher. Duke's revenues would recover less than its actual cash payments in the early years and more than its cash payments in the later years. The amounts not recovered in the early years would be reflected in a deferred account. In the Commission's opinion, levelization merely affects the timing of the recovery of the Company's costs associated with the operation of Catawba. The Company will recover its costs over a period of time instead of all at once, but at the same time, it will be kept whole.

Staff's approach proposed to levelize the costs over the life of the buy-back agreements, i.e., ten years for the cooperatives and fifteen for the municipalities. The Commission believes this period to be too lengthy. The Company was of the opinion that the maximum period of levelization should be five



years. The Commission too, is cognizant of the uncertainties of the future, and in an effort to alleviate some uncertainty and yet accomplish our goal of rate shock mitigation, the Commission finds that appropriate periods for levelization are five years for the cooperatives and seven and one-half years for the municipalities. This represents one-half of the contract period of the buy-back agreements for the parties. It is the Commission's opinion that the five year-seven and one-half year levelization adjustment reasonably includes purchased power capacity costs in the Company's cost of service for ratemaking purposes in an equitable manner to both the Company and its retail ratepayers and reasonably apportions such expenses between the Company's present and future retail ratepayers who will receive the benefit of the sale of the Catawba Unit No. 1.

Therefore, the Commission rejects the proposals of the Company and the Consumer Advocate. The Commission rejects that portion of the Staff's proposal dealing with the time period of the levelization. The Commission adopts the Staff's levelization approach with the exception noted above and would institute a five year levelization period for the cooperatives and a seven and one-half year levelization period for the municipalities. Further, the Commission finds that at the end of the respective levelization periods a true-up should be made and the rates should be adjusted to reflect the end of the levelization period.

*Order No. 86-116, Docket No. 86-188-E (November 5, 1986) (addressing Catawba Units 1 and 2) at 43-45*

investment tax credit is no longer in jeopardy, Staff was recommending that the Commission no longer deduct the credit for ratemaking purposes. (Thomas, Tr. Vol. 4, p. 90)

In light of the foregoing, specifically the new IRS Regulation allowing for such, the Commission finds it should exercise its discretion and adopt the position presented by the Consumer Advocate in numerous previous ratemaking proceedings and by the Commission Staff in this proceeding. However, the Commission concludes that Staff's adjustment which utilizes an updated capital structure and embedded cost of debt as of April 30, 1986, with an adjustment to cost of debt for known changes through June 30, 1986 (See, Section VIII, *supra*) and includes annualized interest on customer deposits should be adopted.

H. LEVELIZATION OF CAPACITY CAPITAL COST OF  
PURCHASED POWER OF CATAWBA #1

The Company has filed levelization of the capacity capital costs of purchased power associated with Catawba Unit #1 consistent with the Commission's ruling in Order No. 85-841 (See, Order No. 85-841, Accounting and Pro Forma Adjustment R, pp. 34-42). In that Order, the Commission levelized the capacity capital payments associated with Catawba Unit #1 over five years for the cooperatives and seven and one-half years for the municipals. However, included in the return portion of the payments proposed by the Company is an equity return component of

14.90% which is the latest return granted by the North Carolina Utilities Commission. By response to Staff Data Request No. 2, the Company filed revised levelized payments, including an equity return component of 14.75% granted by this Commission in Order No. 85-841, supra. The Company's original adjustment is a decrease in purchased power of \$60,026,000 on a system basis and \$8,263,000 on a South Carolina Retail basis. Staff's adjustment is a decrease of \$60,063,000 on a System basis and \$8,300,000 on a South Carolina Retail basis, including a return on equity of 14.75%.

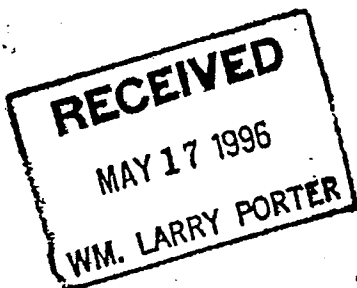
During the course of the proceeding, Company Witness Stimart testified that a reduction in common equity from the originally requested 14.75% to 14.0% affects the contractual arrangement the Company has with the purchasers of the Catawba units. The contracts provide that the allowed return shall also be reflected in the buy-back from the purchasers. (Stimart, Tr. Vol. 3, pp. 141-142) With that in mind, witness Stimart was asked to provide a calculation of the capacity capital costs of purchased power associated with Catawba Unit 1 using a return on common equity of 14.0%, the updated return on equity requested by the Company in this proceeding. (Stimart, Tr. Vol. 4, p. 18) This information was furnished by the Company. See, Hearing Exhibit No. 30. Staff adopted the revised adjustment of a decrease in purchased power of \$8,017,000 on a jurisdictional retail basis. The Company did not oppose Staff's revised adjustment.

The Commission is of the opinion, and so finds, that a calculation including the requested rate of return by the Company is more appropriate in levelizing the capacity capital costs of purchased power associated with Catawba Unit 1 than using a return based on the return granted in another jurisdiction or a return granted in a previous rate request. Using the requested return more closely approximates the rate of return that may be granted in this instance. The Commission further finds that for the purposes of this proceeding, the Commission will employ the rate of 14.0% for all calculations affecting deferred carrying costs. However, as provided in Order No. 85-841, supra, at the end of the levelization period, a true-up will be made to adjust the rates to reflect the end of the levelization period. Therefore, the Commission concludes the adjustment by Staff to decrease purchased power by \$8,017,000 is appropriate, and adopts same.

I. AMORTIZATION OF CATAWBA UNIT 2 NET DEFERRED COSTS

Originally, the Company and Staff proposed an adjustment dealing with the deferred costs following the commercial operation of Catawba Unit 2. The costs relate to return and depreciation, O & M expenses and fuel savings. The basis of the adjustment is that Catawba Unit #2 is scheduled to be declared commercial effective September 1, 1986; however, an Order from the Commission would not be forthcoming until the first part of November. The Company therefore computed deferred costs for the

*Order No. 96-337, Docket Nos. 85-78-E, 86-188-E, and 91-216-E*



10. SKY  
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BEFORE

THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NOS. 85-78-E, 86-188-E and 91-216-E - ORDER NO. 96-337

MAY 10, 1996

IN RE: Duke Power Company's Filing of Rate ) ORDER APPROVING  
Decrement Rider for Interim True-up ) RATE DECREMENT  
of Deferral Accounts. ) RIDER FOR INTERIM  
 ) TRUE-UP OF  
 ) DEFERRAL ACCOUNTS

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of a letter dated April 22, 1996, filed by Duke Power Company (the Company) pursuant to previous Commission orders in Docket Nos. 85-78-E, 86-188-E and 91-216-E, seeking approval of a net decrement rider of 0.43¢/kwh. The purpose of the rider is to implement an interim true-up of the Catawba levelization and demand-side management (DSM) deferral accounts. The filing was made pursuant to S.C. Code Ann., Section 58-27-870 (F) (Supp. 1995). Duke requested that the decrement rider be effective for bills rendered on and after June 1, 1996.

Docket Nos. 85-78-E and 86-188-E were general rate cases filed chiefly to recover costs associated with the Company's Catawba Nuclear Station (Catawba). One major component of cost related to Catawba was the purchase of power from the Catawba Joint Owners. Duke entered into agreements with North Carolina Electric Membership Corporation and Saluda River Electric Cooperative, Inc.

(Cooperatives) to buy-back power for a period of ten years ending in 1995. Duke also entered into agreements with North Carolina Municipal Power Agency and Piedmont Municipal Power Agency (Municipals) to buy-back power for a period of fifteen years ending in the year 2000. The buy-back agreements called for Duke to purchase decreasing annual amounts. The establishment of rates adequate to cover the first year's buy-back requirement would have resulted in rate shock to the Company's South Carolina retail customers and would have required frequent rate adjustments to recognize the declining buy-back requirements.

In order to alleviate rate shock, as well as to provide rate stability, the Commission found that levelization of the costs associated with the buy-back of power from the Cooperatives and Municipals would be appropriate. The Commission further stated that at the end of the levelization periods a true-up should be made and rates should be adjusted to reflect the end of the levelization periods. The levelization associated with the buy-back of power from the Cooperatives ended October 31, 1991 and the levelization associated with the buy-back of power from the Municipals ended April 30, 1994. Subsequent to the ending of the stated levelization periods, Duke continued the previously approved levelization accounting. That is, Duke continued to defer the difference between the level of purchased power expense associated with the buy-back arrangements reflected in rates and the actual buy-back cost incurred.



Duke has commitments to continue purchasing power from the Joint Owners through the year 2000. Therefore, the rate decrement rider reflects only an interim true-up of the Catawba levelization. Duke recognizes that a final true-up will be necessary some time subsequent to the completion of the Company's buy-back obligation and after a final review and audit by the Commission Staff and other parties and a final ruling by the Commission.

In Docket No. 91-216-E, the Company's last general rate case proceeding, the Commission directed the establishment of a deferral account for DSM costs actually incurred by the Company above the test year level for those programs that met criteria established in conjunction with the Company's Integrated Resource Plan. The Commission found that if it was determined that the costs were prudently incurred for used and useful DSM programs, the balance in the deferral account would be reflected in Duke's rates by amortizing the balance over a period of five years. A provision was made to extend the amortization period if amortization over a five year period would have a significant impact on rates. In accordance with the Commission's finding that the DSM deferral account should be amortized in rates over a period of five years or longer, Duke has filed for the amortization of the DSM deferral account to begin in conjunction with the interim true-up of the Catawba levelization account in order to minimize the impact of such amortization on rates. Duke again recognizes that this amortization represents only an interim adjustment to the DSM

deferral account, and that the final disposition of the amounts in the account will not be determined until the amounts have been reviewed and audited by the Commission Staff and other parties and ruled on by the Commission.

Duke stated that all other aspects of the two deferral accounts will stay in place as previously established and approved by the Commission with the understanding that the rate decrement rider represents only an interim true-up and that a final true-up of both accounts will be necessary in the future.

The Commission has carefully reviewed the Company's filing as well as previous orders issued in the relevant dockets and finds that it is appropriate to implement the rate decrement rider at this time to reflect an interim true-up of the Catawba levelization and DSM deferral accounts. The Commission, in approving this rate decrement rider, is acting pursuant to the authority granted by S.C. Code Ann., Section 58-27-870(F) (Supp. 1995).

IT IS THEREFORE ORDERED:

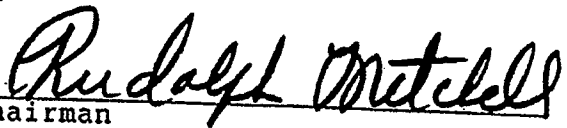
1. That Duke Power Company implement a rate decrement rider of 0.432¢/kwh including revenue related tax factor, to reflect an interim true-up of the Catawba levelization and DSM deferral accounts effective for bills rendered on and after June 1, 1996.

2. That Duke Power file, no later than June 1, 1996, schedules of its electric rates and charges incorporating the decrement rider of 0.432¢/kwh approved herein.

3. That Duke shall continue to account for the Catawba levelization and DSM deferral accounts as established and approved in previous Commission orders.

4. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

Order No. 93-837

Docket No. 91-216-E

DUKE POWER CO.

SEP 8 1993

RATE DEPT.

K. Mack  
L. Porter  
W. Stimart  
B. Yarbrough  
S. Young  
C. Denton

BEFORE

THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NO. 91-216-E - ORDER NO. 93-837

SEPTEMBER 1, 1993

IN RE: Application of Duke Power Company for an )ORDER  
increase in rates and charges. )REDUCING  
 )RATES

This matter is before the Public Service Commission of South Carolina (the Commission) on Duke Power Company's (Duke's) letter of August 23, 1993, in which it requested Commission direction as to the appropriate treatment of certain revenues received from Carolina Power & Light Company (CP&L) under Duke and CP&L's "Schedule J Contract." Under the Schedule J Contract, CP&L agreed to buy 400 MW of electricity from Duke over a stated period of time. In its August 23rd letter Duke notified the Commission that CP&L and Duke have resolved their differences under the Schedule J Contract, that the Schedule J Contract is now in effect, and that Duke received its first payment for electricity on August 19, 1993.<sup>1</sup>

1. In Order No. 91-1022 (November 18, 1991), the Commission determined that the revenues anticipated to be received from CP&L under the terms of the Schedule J Contract should not be included in Duke's rates because CP&L had notified Duke that it did not intend to comply with the terms of the contract. Instead, the Commission ordered Duke to place any Schedule J collections received in a deferred account. The Commission specifically reserved the right to address the deferral at a later time. See, Order, pages 78-79.

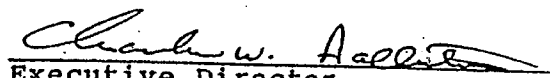
After review of Duke's August 23, 1993, letter and Order No. 91-1022, Duke's rates should be reduced on a prospective basis to reflect the Schedule J payments of \$11,622,619, exclusive of gross receipts tax, on a South Carolina retail basis in the same proportion in which the class revenues were increased by Order No. 91-1022. Duke's rate schedules shall be effective for service rendered on and after September 1, 1993. Duke shall file fifteen (15) copies of its tariffs reflecting the reductions herein ordered within fifteen (15) days of the date of this Order.

IT IS SO ORDERED.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

Duke Power Company  
Legal Department  
422 South Church Street  
Charlotte, NC 28242-0001



**DUKE POWER**

704/382-8100

August 23, 1993

Mr. Charles W. Ballentine  
Executive Director  
The Public Service Commission  
of South Carolina  
111 Doctors Circle  
Columbia, SC 29203

Re: PSCSC Docket No. 91-216-E  
Duke Power Company

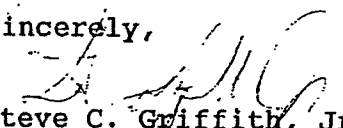
Dear Mr. Ballentine:

In the Company's last general rate case, PSCSC Docket No. 91-216-E, Duke informed the Commission of its Power Sale Agreement of 400 megawatts (Schedule J) with Carolina Power & Light Company (CP&L) and CP&L's notice to Duke that it did not intend to comply with the terms of that agreement. In the Commission's Order issued on November 18, 1991, in that case, Order No. 91-1022, the Commission ordered the Company to "place any collections received pursuant to Schedule J in a deferred account" due to the uncertainty surrounding the Schedule J agreement at that time.

Since that time the companies have resolved their differences, and Schedule J is now in effect. Duke received its first payment from CP&L on August 19, 1993.

In light of Duke's receipt of revenues under Schedule J, Duke now requests the Commission's direction as to the appropriate treatment of these revenues.

Sincerely,

  
Steve C. Griffith, Jr.  
Executive Vice President and  
General Counsel

SCG, JR./sch  
Enclosures

cc: Honorable Steven W. Hamm  
Consumer Advocate

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ROBERT T. LUCAS III  
OF COUNSEL  
WILLIAM I. WARD, JR.  
GEORGE W. FERGUSON, JR.

DUKE POWER COMPANY  
SOUTH CAROLINA RETAIL OPERATIONS  
CP&L SCHEDULE J PROPOSAL  
(Dollars in Thousands)

	Actual 1998	Jan - Aug 1999	Sept. - Dec. 1999	Total 1999	Projected				
					2000	2001	2002	2003	2004
Methodology included in current rates:									
Purchased capacity deferred costs for SC Retail Operations		\$ 6,009	\$ 3,005	\$ 9,014	\$ 1,094	\$ -	\$ -	\$ -	\$ -
Levelized purchased capacity costs collected in rates		\$ (62,758)	\$ (31,379)	\$ (94,137)	\$ (94,137)	\$ (94,137)	\$ (94,137)	\$ (94,137)	\$ (94,137)
Revenue returned to retail customers from rate decrement rider of 0.48 cents per kwh implemented June 1, 1996	(Note A)	\$ 73,114	\$ 36,557	\$ 109,671	\$ 112,296	\$ 114,302	\$ 115,997	\$ 118,061	\$ 120,422
Return on deferred cost balance		\$ (10,116)	\$ (4,997)	\$ (15,113)	\$ (14,250)	\$ (13,787)	\$ (13,174)	\$ (12,350)	\$ (11,268)
Purchased capacity deferred costs balance for SC Retail Operations (end of year)	\$ (187,030)	\$ (180,781)	\$ (177,595)	\$ (177,595)	\$ (172,592)	\$ (166,214)	\$ (157,528)	\$ (145,954)	\$ (130,937)
SC Retail MWH sales (thousands)		15,232	7,616	22,848	23,395	23,813	24,166	24,596	25,088

<b>Methodology Proposed for future rates:</b>									
Purchased capacity deferred costs for SC Retail Operations		\$ 6,009	\$ 3,005	\$ 9,014	\$ 1,094	\$ -	\$ -	\$ -	\$ -
Levelized purchased capacity costs collected in rates		\$ (62,758)	\$ (31,379)	\$ (94,137)	\$ (94,137)	\$ (94,137)	\$ (94,137)	\$ (94,137)	\$ (94,137)
Revenue returned to retail customers from rate decrement rider of 0.48 cents per kwh implemented June 1, 1996	(Note A)	\$ 73,114	\$ 36,557	\$ 109,671	\$ 112,296	\$ 114,302	\$ 115,997	\$ 118,061	\$ 120,422
Revenue returned to retail customers after rate decrement of 0.0639 cents per kwh terminates September 1, 1999	(Note B)	\$ -	\$ 4,867	\$ 4,867	\$ 14,949	\$ 15,217	\$ 15,442	\$ 15,717	\$ 16,031
Return on deferred cost balance		\$ (10,116)	\$ (4,928)	\$ (15,044)	\$ (13,198)	\$ (11,366)	\$ (9,247)	\$ (6,767)	\$ (3,865)
Purchased capacity deferred costs balance for SC Retail Operations (end of year)		\$ (187,030)	\$ (180,781)	\$ (172,659)	\$ (151,655)	\$ (127,639)	\$ (99,584)	\$ (66,710)	\$ (28,259)
SC Retail MWH sales (thousands)		15,232	7,616	22,848	23,395	23,813	24,166	24,596	25,088

- Notes:
- A. A net rate decrement of 0.43 cents per kwh was approved by the Public Service Commission on May 10, 1996 in Order No. 96-337 consisting of a decrement of 0.48 cents per kwh to reflect an interim true-up of the Catawba levelization and an increment of 0.05 cents per kwh to reflect DSM deferral accounts. This net rate decrement was effective for bills rendered on and after June 1, 1996.
- B. A rate reduction amounting to 0.0639 cents per KWH was approved by the Public Service Commission on September 1, 1993 in Order No. 93-837 to reflect Schedule J payments. This rate reduction was effective for service rendered on and after September 1, 1993.



DUKE POWER COMPANY

South Carolina Retail Operations  
Adjustment for Schedule J Billings

Line No.	Description	Amount
1.	Monthly capacity charge (\$/KW/Mo)	\$8.97 1/
2.	Capacity (KW)	400,000
3.	Annual capacity charges (L1xL2x12months)	\$43,056,000
4.	Monthly firm transmission rate (\$/KW/Mo)	\$1.1097 2/
5.	Capacity (KW)	130,000 3/
6.	Annual firm transmission charges (L4xL5x12months)	\$1,731,132
7.	Total capacity and transmission charges (L3+L6)	\$44,787,132
8.	SC Retail allocation factor	0.259508 4/
9.	SC Retail amount	\$11,622,619 =====
10.	SC Retail kwh sales	18,198,562,224 5/
11.	Rate adjustment factor (cents per kwh)	0.0639 =====
12.	Factor including gross receipts tax (L11/.995941)	0.0642 =====
1/	Reference ND 100	
2/	Reference ND 200, page 2 of 2	
3/	Reference ND 300	
4/	Reference SD 100	
5/	Reference SD 200	

*Order No. 1999-442-A, Docket No. 91-216-E*

IN RE: Application of Duke Power Company for an ) ACCOUNTING ORDER  
Increase in Electric Rates and Charges. )  
 )

In Docket No. 91-216-E, Order No. 93-837, the Commission reduced Duke's South Carolina retail electric rates for the revenues received from Carolina Power & Light Company (CP&L) under Duke and CP&L's "Schedule J contract." The contract period was for six years. As of June 30, 1999, Duke will no longer receive revenues from CP&L as the "Schedule J contract" terminates on that day.

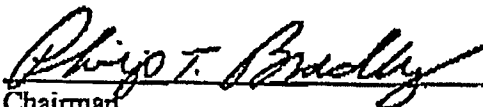
With the termination of the "Schedule J contract" on June 30, 1999, Duke Power requests authority to account for the revenue reduction resulting from Order No. 93-857 as an interim true-up of the Catawba levelization deferral accounts. According to Duke, this is consistent with this Commission's past actions related to the Catawba levelization deferral accounts.

We agree. We hereby continue the rate reduction previously ordered by Commission Order No. 93-837 past June 30, 1999 until further Order of this Commission. However, we hold that this continued rate reduction is to be offset by a true-up of the Catawba levelization deferral account. We believe that this accounting procedure is in the best interests of the companies involved, and the public. The effective date of this accounting order is September 1, 1999.

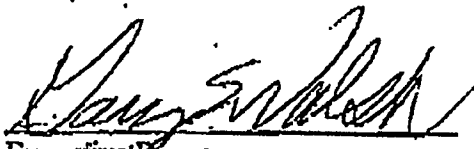
Approval of this accounting request shall not, in any way, affect or limit the right, duty, or jurisdiction of the Commission to further investigate and order revisions, modifications, or changes with respect to any provision of the Order in accordance with the law.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)



Steven K. Young  
Vice President  
Rates and Regulatory Affairs

Duke Power  
PB02L  
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Charlotte, NC 28202-1904  
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Charlotte, NC 28201-1244  
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(704) 382-2677 FAX

June 10, 1999

Mr. Gary Walsh  
Executive Director  
Public Service Commission of South Carolina  
P. O. Drawer 11649  
Columbia, South Carolina 29211

Dear Mr. Walsh:

Subject: Request for Accounting Order

In Docket No. 91-216-E, Order No. 93-837, the Public Service Commission of SC reduced Duke Power's South Carolina retail electric rates for the revenues received from Carolina Power and Light Company (CP&L) under Duke and CP&L's "Schedule J contract." The contract period was for six years. As of June 30, 1999 Duke will no longer receive revenues from CP&L as the "Schedule J contract" terminates on that day.

With the termination of the "Schedule J contract" on June 30, 1999, Duke Power requests authority to account for the revenue reduction resulting from Order No. 93-837 as an interim true-up of the Catawba levelization deferral accounts. This is consistent with this Commission's past actions related to the Catawba levelization deferral accounts.

Sincerely,

Steven K. Young  
Vice President, Rates and Regulatory Affairs

cc: William P. Blume

Letter (April 22, 1996)

Duke Power Company  
Legal Department  
422 South Church Street  
Charlotte, NC 28242-0001



**DUKE POWER**

704-382-8100

April 22, 1996

Mr. Charles W. Ballentine, Executive Director  
The Public Service Commission of South Carolina  
P. O. Drawer 11649  
Columbia, South Carolina 29211

Re: Dockets No. 85-78-E, 86-188-E and 91-216-E  
Rate Decrement Rider for Interim True-Up of Deferral Accounts

Dear Mr. Ballentine:

Pursuant to previous Commission orders Duke is filing herein a rate decrement rider to reflect an interim true-up of the Catawba levelization and DSM deferral accounts.

The Company's 1985 and 1986 general rate cases (Docket No. 85-78-E and Docket No. 86-188-E) were filed chiefly to recover costs associated with the Catawba Nuclear Station. One such cost was for power which Duke purchased from the Catawba Joint Owners. The buy-back period for purchases from North Carolina Electric Membership Corporation and Saluda River Electric Cooperative, Inc. (Cooperatives) was for ten years ending in 1995. The buy-back period for purchases from North Carolina Municipal Power Agency and Piedmont Municipal Power Agency (Municipals) was for fifteen years ending in the year 2000. In order to alleviate rate shock, as well as to provide rate stability, the Commission found that levelization of the costs associated with the buy-back of power from the Catawba Joint Owners was

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MICHAEL LIU  
MARGARET L. NEWSOME

appropriate. Under the levelized approach, Duke's revenues recover less than its actual purchased capacity cash payments during the early years, and more than its actual cash payments in the later years. The amounts not collected in the early years would be reflected in a deferred account. Likewise, amounts collected in excess of cash payments in the later years would be reflected in the deferred account and serve to reduce the balance. The levelization approach allows the Company to recover all of its purchased capacity costs ratably, over a period of time, rather than as incurred. When adopting a levelization method for recovery of costs associated with the buy-back in Docket No. 85-78-E, Order No. 85-841, the Commission acknowledged that it would leave uncertainties to be dealt with by future Commissions, but found that it would reduce the relative frequency of rate adjustments necessary to reflect the annual reductions in the Company's buy-back requirements. The Commission chose to levelize the purchased capacity costs during the first half of the respective buy-back periods. Consequently, the Commission adopted a five year levelization period for the buy-back from the Cooperatives and a seven and one-half year levelization period for the buy-back from the Municipals. The Commission stated that at the end of the respective levelization periods a true-up should be made and the rates should be adjusted to reflect the end of the levelization period.

In the Company's last general rate case, Docket No. 91-216-E, which was based on a 1990 calendar year test period, the Company adjusted purchased power expense to reflect the projected actual purchased capacity payment to the Cooperatives for the twelve month period from November 1991 through October 1992 because the levelization period for the Cooperative buy-back was scheduled to end October 31, 1991. No adjustment was made to the levelization of the capacity



payments to the Municipals because the levelization period was not scheduled to end until April 30, 1994. Although the approved purchased capacity costs associated with the Cooperative buy-back were not characterized as a levelized amount, the Company has continued to calculate charges to the deferral account as though they were. This has served to give the South Carolina retail customers the benefit of the Company's declining purchase obligation to the Cooperatives. The Company has also continued to calculate deferred charges associated with the Municipals buy-back subsequent to the end of the original levelization period on April 30, 1994.

Pursuant to Order No. 85-841 dated October 8, 1985, in Docket No. 85-78-E and Order No. 86-1116 dated November 5, 1986, in Docket No. 86-188-E the Company is filing an interim true-up and rate decrement to reflect the end of the respective levelization periods. The Company will continue to treat the purchased capacity amounts reflected in rates as levelized amounts and continue deferral accounting for the difference between such amounts and the actual purchased capacity costs. The Company has commitments to continue purchasing power from the Joint Owners through the year 2000. Therefore, this rate decrement is only an interim true-up. A final true-up will be necessary some time subsequent to the completion of the Company's buy-back obligation and after a final review and audit by the Commission Staff and other parties and a ruling by the Commission.

In Duke's 1991 general rate case, Docket No. 91-216-E, the Commission directed the establishment of a deferral account for demand-side management (DSM) costs actually incurred by the Company above the test year level for those programs that met criteria established in conjunction with the Company's integrated resource plan. The Commission stated that if it is determined that the costs were prudently

incurred for used and useful DSM programs, the balance in the deferred account would be reflected in Duke's rates by amortizing the balance over a period of five years. A provision was made to extend the amortization period if the balance in the deferred account would have a significant impact on rates if amortized over five years. Amortization of the DSM deferral balance now, in conjunction with the interim true-up of the Catawba purchased capacity deferred account, will minimize the impact of such amortization on rates. Again, this amortization is only an interim adjustment to the DSM deferral account. The final disposition of the amounts in the deferred account will not be determined until the amounts have been reviewed and audited by the Commission Staff and other parties and ruled on by the Commission.

In view of the dollars currently in rates and the accumulated balance in the two deferral accounts, a net decrement rider of 0.43¢/kwh (excluding revenue related taxes), applicable to all South Carolina retail energy sales, would be appropriate. Such decrement would serve as an interim true-up of the two deferral accounts. Duke proposes that the decrement rider be effective for bills rendered on and after June 1, 1996.

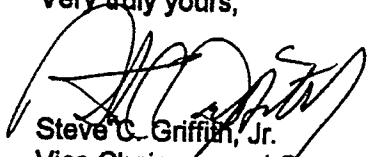
Implementing the interim true-up is consistent with Section 58-27-870(F), Code of Laws of South Carolina (1976), as amended, which provides that:

the Commission may allow rates or tariffs to be put into effect without notice and hearing upon order of the Commission when such rates or tariffs do not require a determination of the entire rate structure and overall rate of return, or when the rates or tariffs do not result in any rate increase to the utility. . . .

The provisions of Section 58-27-870(F) are applicable to this filing. Adoption of a net decrement rider does not require a determination of the entire rate structure or overall rate of return for the Company.

All other aspects of the deferral accounts will stay in place as previously approved with the understanding that this decrement rider represents an interim deferral account true-up.

Very truly yours,

A handwritten signature in black ink, appearing to read "Steve C. Griffin, Jr.", written over the typed name.

Steve C. Griffin, Jr.  
Vice Chairman and General Counsel

cc: Philip S. Porter  
Consumer Advocate

bc: W. H. Grigg  
R. B. Priory  
S. C. Griffith, Jr.  
D. H. Denton, Jr.  
R. J. Osborne  
J. R. Hicks  
R. G. Shaw  
S. A. Becht  
W. A. Coley  
W. R. Stimart  
E. T. Ruff  
R. L. Gibson  
D. D. Miller  
D. E. Hatley  
J. W. Hillhouse, Jr.  
S. K. Young  
J. F. Lomax  
C. R. Wheelless  
Barbara B. Orr  
B. G. Yarbrough  
C. A. Paton  
M. L. Grigg  
W. L. Porter

Schedule J rate

DUKE POWER COMPANY  
South Carolina Retail Operations  
Adjustment for Schedule J Billings

Line No.	Description	Amount
1.	Monthly capacity charge (\$/KW/Mo)	\$8.97 1/
2.	Capacity (KW)	400,000
3.	Annual capacity charges (L1xL2x12months)	\$43,056,000
4.	Monthly firm transmission rate (\$/KW/Mo)	\$1.1097 2/
5.	Capacity (KW)	130,000 3/
6.	Annual firm transmission charges (L4xL5x12months)	\$1,731,132
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8.	SC Retail allocation factor	0.259508 4/
9.	SC Retail amount	\$11,622,619
10.	SC Retail kwh sales	18,198,562,224 5/
11.	Rate adjustment factor (cents per kwh)	0.0639
12.	Factor including gross receipts tax (L11/.995941) * SC factor	0.0642

1/ Reference ND 100

2/ Reference ND 200, page 2 of 2

3/ Reference ND 300

4/ Reference SD 100

5/ Reference SD 200

003 3-1-5199